Community Financial Credit Union

March 8, 2010

Ms. Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Dear Ms. Rupp:

I appreciate the opportunity to comment on the National Credit Union Administration's (NCUA) proposed Regulation 704. I have serious concerns about the regulation and the level of complexity that it encompasses. I realize the overriding thought behind it has been "never again", but based on everything I have been able to read and comprehend, it seems more likely to be simply "never". It overreaches in that it attempts to eliminate virtually all of the risks while also increasing the capital requirements. It appears that most of the proposed requirements will effectively put most, if not all existing corporate completely out of business.

This would be a significant issue for Community Financial Credit Union as we utilize our corporate (SunCorp) extensively and if forced to find the services provided elsewhere, would likely cost significant amounts of time and financial resources. I do agree that the capital structure must change to reflect a more risk based system so that any credit union could utilize a corporate and contribute capital to the level of risk they are willing or able to assume.

There are a few specific comments regarding areas of the proposed regulation I would also like to address:

Capital Extinguishment and OTTI/Legacy Assets.
These issues are not addressed in the regulation other than to "update" the current 704 to reflect the Board's current position on the "required" extinguishment of capital. It is most likely realistic to assume that virtually no capital would be left from the majority of corporates due to these assets, however, the stance of NCUA has been disappointing in that there has been no flexibility or willingness to discuss the accounting treatment as the regulations do not REQUIRE the extinguishment of capital.

Also, how can anyone reasonably respond to the proposed regulation and potential new capital necessary to fund the system without knowing how the legacy assets will be handled. NCUA should stop the current process until this issue has been addressed first.

Capital Requirements
I agree that capital was not sufficient for the level of risk in the investment portfolios. In any event, the system needs to have some form of risk based capital requirements that protect the interests of all credit unions who essentially guarantee the system through NCUA.

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The proposed rule will make it almost impossible to meet the capital standards with the reduced investment authorities suggested. The requirements for new capital may be reasonable, but reaching them will likely not be possible within the timeframes proposed. It is unreasonable to expect NPCUs to contribute additional capital and then assist the corporates to build capital quickly at the same time we're dealing with our own earnings issues. I would suggest lengthening the time to meet the retained earnings requirements set forth in the proposed regulation.

Investment Authority Changes
The proposed regulation is very restrictive to the extent that I don't know if it is even reasonable to assume the model used by NCUA could work. You have placed many complex requirements and standards into these sections. The two-year weighted average life is much too restrictive and the NEV testing requirements appear to be so restrictive that very limited investment options would available. As opposed to the complex, interdependent restrictions, I believe a simple, risk based capital system could accomplish the same goals.

Governance changes
The requirements for specific titles to serve as a volunteer are not reasonable. This entire section should be eliminated as it defeats the democratic nature of credit unions. If anything, a basic skills/education requirement could be considered but allow new volunteers to meet them fully within a set period of time. Also, setting term limits with these requirements seems counterintuitive as it appears you believe that significant levels of skill and education are necessary to serve on a Corporate Board and then you want them to be removed in a relatively short period of time.

Executive compensation disclosure feels like good governance and I would actually recommend to any Corporate Board that they voluntarily do this, but this is not the issue that caused problems for Corporates. This is simply out of the area of necessary regulation by NCUA.

CUSO Restrictions
I do not believe that any restrictions on CUSO's should be part of this regulation, especially the provision that NCUA can examine a CUSO that a Corporate has less than a majority interest in.

Summary
I believe that NCUA is acting prudently to make adjustments to the corporate regulation but must remember that Corporates and NPCUs did not create the economic crisis we have been enduring. I believe the proposed regulation will destroy Corporates and possibly many smaller NPCUs who need them.

In the end, I would urge you to withdraw the proposed regulation and start again once the legacy asset issue has been resolved. At that point, actually create a regulation that allows Corporates to manage risk vs. attempting the "never again" elimination of all risk.

Sincerely,

Greg Hill
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